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## APPROACHES FOR MEASURING HR: A PRE-REQUISITE FOR SUCCESS OF HR ANALYTICS

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### Abstract:

*An emphasize is given on the subject of HR analytics in the recent past by many Global Corporations.HR analytics provides an opportunity to Hr professionals for demonstrating direct impact of HR processes and initiatives on improving business results. This article focuses on various approaches to measure HR and methods by which such measuring facilitates the process of achieving HR analytics. There are some time tested models discussed to set the HR measuring approaches in the organization and further deliberate various other issues concerning HR analytics e examined.*

### KEY WORDS:

HR, HR Analytics, Approaches, Methods, HR Measurement.

### INTRODUCTION

“HR Analytics” is fast developing approach to measure HR processes efficiency in the organization. It is quite often mistaken as gathering data on employee efficiency. HR analytics sets the framework for systematic collection, analysis to get insight into HR processes and utilize analyzed information for making appropriate decisions to improve HR processes. Lawler, Levenson and Boudreau (2004) viewed HR analytics is an emerging discipline that can enable HR professionals to fulfill the promise of becoming true strategic partner in the business. Today's HR analytic approaches and tools are not only enable managers to gain insights on current workforce performance, cost, services but also models “What if” scenarios to anticipate changes in business environment.

### HRANALYTICS

In the information age, organizations collect more business data than ever, but still lack of proper approach, such collected data are not put into effective use. According to Thomas H.Davenport,“Analytics” refers to extensive use of data, statistical and quantitative analysis, explanatory and predictive models, and fact based management to drive decision and actions. Analytics are now considered as a subset of“Business Intelligence”. Business Intelligence is a set of technologies, processes and reporting that use data to understand and analyze business performance. Analytics mature in any organization over a period of time and progress of analytics maturity needs to be tracked on the basis levels of HR functions taken up for analysis.

### PROGRESSIVE STAGES OF HRANALYTICS

A strong framework within the ambit of business / HR strategy requires to be established for measuring HR as an enabler to make a better HR analytics system in the organization. While dealing on the subject of Business Intelligence and analytics, Thomas H.Davenport made a reference to general analytic

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stages citing SAP model of progressive analytic stages. The outline of progressive levels of analytics is presented in Box no: 1

**Box - 1: Progressive Stages of HR Analytics**

- ❖ Statistical Analysis  
Why is this happening?
- ❖ Forecasting & Extrapolation  
What if these trends continue?
- ❖ Predictive modeling  
What will happen next?
- ❖ Optimization  
What is the best that can happen?

Business Intelligence gathers and analyzes available HR and operational data to identify insightful knowledge for the purpose of improving decision making for the business. Measuring HR should form a basis for evolving robust system of HR analytics. Progress in HR analytics can be best explained in four stages.

**Statistical Analysis:** This can be broadly grouped in to two categories viz., Descriptive statistics and Inferential Statistics. Descriptive statistics does not give any insight in to future for planning or preparation. It does not forecast any trends nor exhibit any proactiveness in terms of its contents. For example, Performance Management system provides statistical percentage of top performers on the basis of objectively appraised data and might indicate percentage of potential employees who would guarantee future performance. On the other hand, Inferential Statistics gives a direction on future scenario which is likely to emerge. For example, Inferential Statistics may indicate expected percentage of top performers turnover and likely possible scenario of top performers leaving the organization as a trend. This kind of inferential exercise supports HR functions to reduce the risk of loosing out key talents to competition.

**Forecasting and Extrapolation:** The forecasting and extrapolation technique is a simplistic model that uses past data trends to project future levels. The forecasting and extrapolation operates on the assumptions that future values of any variable are determined solely by its historical values”

Basic Procedure to be followed as under:

· Identify overall past trend and fit proper curve. By and large Linear Curve, Geometric curve, Polynomial curve and the like are used.

**Project future trends based upon chosen curve**

**Predictive Modeling:** Predictive modeling is the process by which a model is created or chosen to try to best predict the probability of an outcome. In many cases the model is chosen on the basis of [detection theory](#) to try to guess the probability of an outcome given a set amount of input data. In any HR process, models can be created to stimulate, explore contingencies and optimize the chosen HR process. Many of these approaches deploy some form of linear programming software and solvers, which allow programs to seek particular goals, given a set of variables and constraints.

**Optimization:** In his book titled “HR Matters – People leading Business”, Stephan Dowling views that HR optimization is an important Service Quality management philosophy. It aims to achieve significant and sustainable improvements in performance by re-engineering and co-designing the processes through which an organization operates, maximizing their value-added content and minimizing everything else. This approach can be applied at an individual process level or team level or to the whole organization. HR analytics often help organizations to move along the path of optimization. HR value creation is carried on by cost reduction and or value addition. The optimization models play a very vital role in maximizing the value addition and minimizing the cost elements in support of creating business improvements. Approaches for measuring HR are very critical prerequisite for setting up HR analytics and intensity with which measuring HR permeates in to the organization is an indicator of levels of progress in HR analytics. Let us examine some of the approaches which are predominantly used in most of the organizations.

## MEASURING HR

The desire of HR practitioners to demonstrate the value of what they do for the rest of the Organization has a long history. As HR professionals respond to the challenge of taking a more strategic perspective regarding their role in the organization, measuring HR's performance and its contribution to the firm's performance consistently emerge as a key theme in Industry. Drucker (1954) referred to "Personnel Manager as constantly looks at their ability to prove they are making contributions to the enterprise. This view has been echoed by Tom Stewart by describing "HR leaders are unable to describe their contributions to value added except in trendy, unquantifiable and wannabe terms" (Stewart, 1996). Strategic Human resource (SHRM) researchers have sought to understand the ways in which organization HR practices are associated with the performance of the organization. Dave Ulrich (1997) explained that traditionally the HR executives could talk abstract and conceptually about employee morale, turnover, commitment and satisfaction etc. To fully fill the business partners' role of HR, concepts need to be replaced with empirical evidence, ideas with results, and perceptions with assessments. Measuring HR provides platform for HR professionals to explain their role in improving business results. HR professionals in the past have invested time and techniques to measure their contributions. They measured and reported hiring efficiency, training results, absenteeism, labour costs and a whole lot of such measurements. This paradigm focused on measuring the efficiency of the function was fine when HR was viewed as a support function. The new paradigm that calls for HR to act as Strategic Partner role for the business will find the above measurements grossly inadequate. In many professional forums questions are raised with reference to existing Measuring HR framework adequacy. Unless Measuring approaches are perfect and fine tuned by HR professionals it is not feasible to justify and creditably explain business alignment status through HR analytics.

The "systematic assignment of numbers to entities" is known as measurements. Measurement is quite often complex, frustrating, difficult, challenging, important and abused and misused. It is proved beyond doubt that Measurement triggers improvements and Improvements build strength growth and prosperity. A measurement induces curiosity, interrogation and challenging the way things are done. A well designed measurement system is a key for successful HR analytics. The Scholarly literature groups the practices pertaining to measuring HR in to three broader Category (see Box - 2) viz.

- (a) Early approaches
- (b) Solid Value adding approaches
- © Leading Edge approaches.

## LEADING EDGE APPROACHES

### HR- Return On Investments (ROI)

ROI has originally been designed as long-term measure in the financial function. However it is being used as a short-term measure. There are quite number of studies in the field of Training and Development focusing ROI as an approach to understand true impacts of Training as HR process in enhancing organizational capability. There are critiques often pinpointed that ROI is a single period measurement and it ignores totally improvements occurring on account of training impact and in short it does not recognize ROI accrual beyond the current period. At times the use of ROI as a long term measure is often abused. For example the evaluation of strategic requirements (long term) and Performance measures (short term) can lead to a discriminatory allocation of resources, often to evaluate that short term goals are achieved to the detriment of long term objectives. Vollmann (1991) for instance argued that one of the fundamental attributes of an effective measurement system is that it should encourage actions congruent with the company's business strategy.

### Box - 2: Approaches for Measuring HR

#### Leading Edge Approach:

- HR ROI
- HR Effectiveness Index
- Human Capital Measurement
- HR-Profit centre.

#### Solid Value Added Approach:

- HR Key Indicators
- HR Cost Monitoring
- HR Reputation
- HR Competitive Bench Marking

#### Early Approaches:

- HR survey
- HR Auditing

There are several models to drive ROI measures in the organization. Let us examine some important universally accepted illustrative models for measuring HR in term of its contributions to business growth.

H.D.Stolovitch and J.G.Maurice (1998) used Human Performance Technology (HPT) interventions as seven step model for computing ROI. Using this model, authors have even documented cases with 61.5% growth of ROI in one year by adopting HPT interventions. Basically HPT interventions are in usage for measuring human capital appreciation and also trends of human performance capability.

Edward and Gordon (2001) put forth nine-step model work sheet for computing ROI on human capital innovative and creative levels and steps are as under:

1. Calculate all direct costs associated with innovation and creativity programs
2. Calculate the cost of lost productivity when all participants in brain storming
3. Calculate the total cost of the innovation and creativity programmes.
4. Estimate expected hourly, daily, weekly or monthly producing benefits per employee covered under the programme. This can be done establishing control groups or by using a standard linear regression formula.
5. Estimate actual quality benefit from the programme
6. Estimate the time length effect of the programme using standard discount formula.
7. Calculate profit per employee
8. Calculate benefit of the total programme
9. Calculate ROI.

Philips et.al (2001) build on almost twenty years of experience in the development and refinement of ROI process in HR area in order to demonstrate the contribution of HR in generating value. Their approach and measurement tool is targeted at three different users viz., HR practitioners, Senior managers and Researchers/Consultants. Their model steps are given below:

1. Evaluation Planning: Develop HR programme objectives and develop evaluation plan.

- 2.Data Collection: collect data during and after implementation of HR programme.
- 3.Data Analysis: Isolate the effects of HR programme. Convert data to monetary values. Capture HR programme cost. Compute ROI and identify intangibles measures and benefits.
- 4.Reporting :make HR programme impacting business results and study results to be used for HR functional improvements

A careful examination of above two models on ROI would reveal that the model advanced by Philips is more oriented towards HR analytics and it stretches beyond mere measuring HR process.

#### **HR Effectiveness Index**

In 1997, a special issue of the US based journal “Human Resource management” (edited by A.K.Yeung) was completely devoted to “measuring Human Resource effectiveness and its impact”. Preceding this issue, numerous articles had addressed the relationship between HR and its proclaimed contributions to the performance of the organization. Effectiveness is viewed as accomplishing the right thing in HR process. The effectiveness measures are perhaps the most important in HR analytics of all, since they quantify the value added aspects of the process and the outputs, which are concerned with internal and external customers depending upon the context of business. HR effectiveness Index is the process of identifying a clear, consistent and compelling connection between the company's strategy and the work of each employee and zero in on the critical few measures that have the greatest impact on the company's bottom line. An Index is a statistical measures designed to show changes in variables with respect to time, geographic locations and other characteristics. There are three popular index which are used in the Industries viz., Human capital revenue Index, Human Capital cost Index, and Human capital profit Index.

#### **HR – Human Capital Measurements**

There are difference of views prevailed in the matter of Intellectual Capital and Human Capital for many years. However, Peppard and Rylander (2001) made clear definitions of these two important concepts. They treated Human Capital as one components of Intellectual Capital besides Relationship Capital and Organizational Capital. Accordingly Human Capital comprises the competence, skills; intellectual agility of the individual employees, Relationship Capital represents all valuable relationships (net works) with customers, suppliers and other relative stake holders, organizational capital includes process, systems, structures, brands, intellectual property and other intangibles that support value creation.

Human capital is viewed as traits one brings to job (intelligence, energy, positive attitude, reliability and commitment) one's stability to learn from the job (aptitude, imagination, creativity etc.) and one's innovation to share information and knowledge (team spirit, goal orientation etc.) It is interesting to note from the works of Jac Fitz-enz (2000) that measures such as Human Capital Revenue Factor (HCRF), Human Economic Value Added (HEVA), Human Capital Cost Factor (HCCF), Human Capital Value Added (HCVA), Human Capital Return on Investment (HCROI) and Human Capital Market Value (HCMV), are suggested Human Capital Measurement techniques and these techniques are considered as an excellent vehicle for developing HR Analytics in most systematic manner.

#### **HR – Profit Centre**

HR Profit centre refers to functional deliverables of HR turns into revenue generating sources by assigning its activity. For becoming HR as profit centre, HR processes must very closely be related with the business strategy and business results. This approach to measuring HR makes a direct relationship with the bottom line impact of HR on the business results. For instance, the concept of “Shared Service Centre (SSC)” is a classical example of HR tuning itself into profit making centre through reducing fixed cost (manpower cost) by establishing centralized HR related service centre in the larger organizational units that are functioning from multiple geographical regions.

#### **SOLID VALUE ADDED APPROACH**

##### **HR Key Indicators**

It is yet another approach which facilitates HR Analytics by referring to two ends of the high performance HR continuum and it is developed to communicate impending non-financial HR information which may likely to cause very serious impacts in business. In HR Analytics, the key indicators are very crucial guide for foreseeing futuristic requirements of human organization. For example, Evaluating Competency levels of workforce and finding percentage of population for futuristic demands of competency is one such indicator. It is quite often appeared in HR attitudinal survey to find out percentage

of workforce stay with the organization for succeeding three years. These kinds of analytics in HR provide way forward to plan about business issues well ahead of competition on the strength of HR Analytical information.

#### **HR – Cost Monitoring:**

HR Cost Monitoring is considered as one of solid value added approaches in HR Analytics. The cost benefit analytics is a microcosm of HR scorecard framework. Cost analysis may be operational (designed low cost) or strategic (designed to help implementation of organization strategy). There are various methods of measurements of costs and valuations of human resources are discussed briefly with a view to create a framework for setting effective HR analytics system.

1. Historical cost methods recognize acquisition cost of workforce and also cost actually incurred for developing people.
2. Replacement cost methods suggests Replacement cost is measure of the cost to replace a firm's existing human resources.
3. Opportunity cost methods envisage to ascertaining the value of an asset when there is an alternative use of it.

Some of the models developed by Lev and Schwartz, Eric Flamholtz, and Jaggi Lau etc., have also been in usage for better Human Resource Accounting. These models are very useful for enhancing quality of works in HR Analytics. Human Resource Accounting is viewed as activity confined to arriving money estimates to the value of the firms human organization and its customer good will.

#### **HR – Reputation**

HR Reputation means and includes the holistic sum of everything people experience and receive while they are part of the organization and how well company fulfills people's needs, their expectation and even their dreams. Modern HR practices propel greater reputation through HR interventions like Employee Value Proposition (EVP), Employer Branding (EB) etc. Dave Ulrich (2005) commented that HR professionals take a very key role in drafting, declaring and demonstrating the EVP. HR professionals are in a position to ensure that all HR practices are designed with the EVP in mind. By enhancing reputation in society in general and more particular in the minds of prospective job seekers, HR enables to create an environment for better talentship acquisition and thereby arrest attrition rates drastically. HR Analytics can use this approach to weigh its impact on improving trustful work culture leading to improved business results.

#### **HR – Competitive Bench Marking:**

In HR Analytics, HR-Bench Marking approach is adopted as standard method for collecting and reporting data that are most critical to operations. HR processes data in a way that paves a way for meaningful comparisons between different organizations. Generally, HR Analytics use benchmarking to find out 'Cost per hire in companies with competition', 'Compensation levels in terms of Industry / Geographical region' etc.

#### **EARLY APPROACHES**

##### **HR Survey**

HR survey is a measurement process using highly structured interview, employing a measurement tool such as questionnaire, attitudinal survey instruments, Interview schedules etc. This approach is predominantly used earlier years in 1980 for the purpose understanding and measuring some of the basic variables including Employee satisfaction, Job satisfaction, Commitment, Employee engagement and Organizational climate. For HR analytics, HR survey is one of the most essential tools for building models and experiment optimization of HR process.

##### **HR Audit**

An HR audit is a process to review implementation of organization's policies and procedures, ensure compliance with employment law, eliminate liabilities, implement best practices and educate managers. HR audit is one of the earlier measures which are used for measuring HR.



**In general, HR audit focuses on -**

Measurement and evaluation of HR programmes, policies and practices  
Identification of gap between objectives and results of HR activities.  
Determination of what should or should not be done in future.

Some of the key benefits of using HR audit as measuring tool are summarized below for better understanding on its utility values as an approach to measure HR.

Identifies the contribution of the HR departments to the organization  
Improves professional image of the HR department  
Encourages greater responsibility and professionalism among members of the HR  
Clarifies the HR department's duties and responsibilities  
Finds critical HR problems

In work life situation, HR audit serves as means of building foundation for measuring HR, but its contributions towards HR Analytics are very subtle. All approaches narrated above are of some valuable contributors in measuring HR and measure output becomes main source for carrying our further analytics exercise.

**HR Analytics – Dashboard usage**

Indian HR professionals are more convenient with preparation of Dashboards report as one way of doing HR Analytics as per the expectation of top management but these dashboards most commonly used to report routine HR process execution, assess and report HR department operational matter. Dashboards are least commonly used to pinpoint HR programs, HR alignment as functions/systems, HR relations to new business strategies etc. In the progressive HR aligned business organization, Dashboards cover some of the HR activities metric such as engagement, performance, attrition/retention, Head count, diversity (MNC) affirmative action compliance status (public sector), compensation etc., The dashboards reporting data for more formalities to be complied in many organization and in reality, very negligible percentages of organizations use dashboards data for the purpose of predictive or proactive planning of HR functions / Systems. Dashboards data provide wither historical information or real time information but imposes limitations on HR fraternity to be more reactive rather than proactive or predictive. It is interesting to note the views of Jac Fitz-enz (2000), who cautions that top management has a short attention span for anything that is not rightly focused and explicitly explained. We need to show them issues which are important for upper management and should not bury the issues in data. By and large Dash Board reports revolve around HR performance related matters and very little analytics being applied in presentation of reports to top management. It is incorrect approach to equate the practice Dashboard reporting with that of HR analytics. The Dashboards reports of most of the companies contain some exceptional data (example any violation of employment laws) and mostly routine data involving Head count, cost element etc., Mere measuring HR process using some of the approaches discussed in this paper shall not be construed as analytics unless the reporting in Dash boards move forward with detailed analytics using stages specified in the Box - 1.

**HRANALYTICS SURVEY**

A snap survey was conducted using convenient sampling method with a sole objective of finding the status of HR analytics practices prevailing at MNC and companies of Indian origin functioning in the state of Tamilnadu. Using telephonic interviews with HR heads of the companies, data pertaining to subject matter was collected from 30 companies. In order to keep conditions of unanimity the names are not disclosed. The findings of the snap survey are furnished in the below table. It is emerging from the data tabulated that HR analytics discipline is still not deep rooted in the organizations surveyed but Multi National Organizations are more keep in using analytics in their activities. The competency factor for using analytics becomes most needed one even though standard software packages support the analytics.

**Table -1: Survey summary findings on HR analytics status in the state of Tamil Nadu**

Sample (n) = 30

ITEMS	YES	NO	REMARKS
Awareness on HRanalytics	7	13	All 7 respondents from MNCs
Dash Board Reporting	24	6	
Dash Board report shared with Top management	24	----	
Adequacy of internal competency to use HR Analytics	7	--	Company aware of HRanalytics have internal competency
Will HR analytics useful to the organization (answer solicited after briefing the concept)	22	3	Remaining 5 respondents are unsure of its utility value
Would you like to use HR analytics	24	-	6 respondents want to use with Management concurrence
Would like to learn usage of HR analytics	30		
Can it be used in all sectors such as Manufacturing,IT,ITEs,service	22	-	8 respondents non committal

The above analysis confirms that HR analytics discipline in rudimentary stage in Indian context and all the surveyed Multi National Companies are progressing with analytics and further positively confirmed the utility values of analytics. All respondents of this snap survey opined that they would like to undergo training for learning the concept and its implementation.

#### **Organizations and HR Analytics**

On careful analysis of various practices relate to Measuring HR, I have come to conclusion that the HR Analytics activities go through three phases in any organization before it reaches maturation phase.

1. Analytically Impaired State: HR function will miss out more crucial data and quality of data may not be good enough to take any valid decisions. At times, there will be tendency to keep basic definitions of measurable HR practices in a state of confusion.

2. Analytically Isolated State: There may be clear definitions to measure HR but lack of alignment with in HR functions and linkages with business implications of HR practices are not analyzed.

3.

Analytically competent State: Well built frame work for capturing, analyzing and inferring HR processes data and generate actionable plans on the basis of analytics linkages with business imperatives.

#### **Barriers for HR Analytics**

There are notable impediments which impede the development HR analytics as a discipline for better decision making in business. The following are considered as barriers in progressing HR analytics discipline.

- 1.Lack of Analytical competency exists within HR organizations.
2. There are possibility for questioning data credibility In measuring HR, approaches like ROI process, HR cost monitoring etc,
3. In case of multi location organization, data collection itself becomes bottleneck in HR analytics.
4. Absence of positive attitude on the part of data user is another barrier for success of HR Analytics.
5. Lack of leadership encouragement for HR Analytics activities.
6. Standard software brings in limitations to HR Analytic subjects and makes whole process as reporting metrics and or transactional metrics and space for need based analysis is ignored.

#### **Effective HR Analytics**

HR Analytics can be perfect tool in the hands of HR professional to prove that the bottom line of business results that effective human capital practices drive business outcomes more than business outcome lead to good HR practices. The following would be guiding principles for enhancing effectiveness of HR Analytics:

1. HR Analytics should be used for forecasting and predictive modeling.
2. Culture of the organization should orient towards data driven decision making at all levels in the organization.
3. In order to spread HR Analytics Gospel, it is necessary that HR Analytics should find it place in financial annual reports of the organization.
4. Developing common language on HR Analytics and standards would facilitate rapid maturation process of HR Analytics as a discipline.
5. HR Analytics must focus on its analysis of basic non work force related data as it is seen the world business goes through seismic shocks of global economy at frequent intervals.
6. A challenging HR strategy creation with in the ambit of business strategy and properly selected HR measuring approaches would act as vanguard of encouraging the organization to adopt and change HR function as most insight driven functions towards achieving business results.

#### **Utility value of HR Analytics**

A properly configured, designed and implemented HR Analytics system brings together multiple content areas merging Finance, Customer, Operational and HR cost data to provide holistic scenario on impending HR issues that are likely to cause ripples in the organization.

Minimized risk of loosing key talents through analyzing revenue generated by high performers and their levels of competencies.

Managing internal versus external hiring cost and incidentally reduces startup loss of productivity by new comer.

Avoiding over or under paying salaries and benefits, which may likely to impact attrition rates.

Avoiding costly exodus of baby boomers that are in retiring age group but still keeps high skill levels, contact knowledge of business etc.

For example, Saratoga Institute Human Capital Financial Index is adopted by many organizations to focus on three human capital phenomena viz., Human Capital Revenue Index (HCRI), Human Capital Cost Index (HCCI) and Human Capital Profit Index (HCPI). Even though these indexes covered the years 1989 through 1997, it has greater relevance in today's knowledge based Industries and it would be handy for HR professionals of these Industries. Measurements including Employee Engagement Index (EEI), Employee Satisfaction Index (ESI), are considered as true reflectors of HR processes effectiveness. Krishnamurthy (2004) studies on relating employee engagement index with the customer satisfaction index are classical examples for establishing HR process impact on business outcome. A good HR

analytical can be designed for an organization using principles dealt in some of the human capital valuation proponents such as Watson Wyatt's human capital index (1999), Sveiby's intangible assets monitor (1997), Mayo's human capital monitor (2001) and Peppard and Rylander (2001) Intellectual Assessment Model.

#### CONCLUSION

HR Analytics as a discipline is used for reporting and or controlling HR systems / functions and very negligible percentage of organizations put effective use of analyzing it for seeking its impact on business. Even fortune 500 companies in US adopt HR data in dashboards / scoreboard but never act upon further to understand its linkage with business. Moderate status of HR function, however much it wants to be at table as a business partner together with accounting, finance and marketing, can be achieved through institutionalizing HR Analytic function and thereby quantified data would create credentials to HR contributions towards achievement of business results.

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